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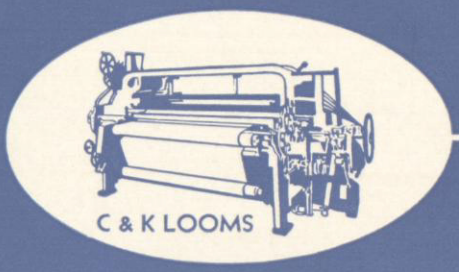
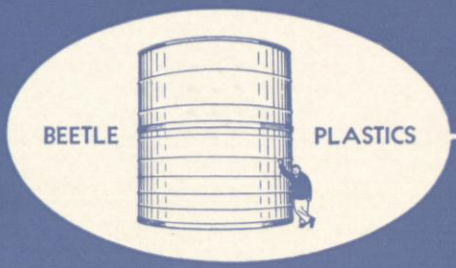
# CROMPTON & KNOWLES CORPORATION

WORCESTER, MASSACHUSETTS, U.S.A.





CROMPTON & KNOWLES CORPORATION
C&K
WORCESTER MASS · U·S·A·

# 1956
# ANNUAL REPORT

## DIRECTORS

EDWARD L. CLIFFORD
President, Worcester County Trust Company, Worcester

CARL S. FORSYTHE
Attorney,
Forsythe, McGovern & Fetzer, New York City

RUFUS S. FROST
Vice-president

FREDERIC W. HOWE, JR.
President

JOHN C. IRVIN
Manager of Charlotte, N. C., Office

WILLIAM D. IRELAND
President, Second Bank—State Street Trust Co., Boston

LUCIUS J. KNOWLES

ALBERT PALMER
Vice-president

OSCAR V. PAYNE
Vice-president

WILLIAM J. SPEERS, JR.
Attorney,
Warner, Stackpole, Stetson & Bradlee, Boston

ROBERT W. STODDARD
President, Wyman-Gordon Co., Worcester

HAROLD R. WING

## OFFICERS

FREDERIC W. HOWE, JR.
President and General Manager

RUFUS S. FROST
Vice-president, Treasurer, Clerk

ALBERT PALMER
Vice-president, Engineering

OSCAR V. PAYNE
Vice-president, Manufacturing

JOSEPH F. MOLLOY
Vice-president, Sales

JAMES BARRINGER
Assistant Treasurer

as of December 31, 1956

Transfer Agent and Registrar
WORCESTER COUNTY TRUST CO.

Auditors
PEAT, MARWICK, MITCHELL & CO.

# To Our Stockholders:

Net earnings and sales for the year 1956 were in excess of those for any year since 1951. Total volume of business was up 22% over the preceding year, resulting in an earnings increase of 38%. Almost half of the year's earnings were attributable to the operations of subsidiaries or divisions, not located at Worcester, which we acquired or established within the last three years and which were in fields not related to our primary business of the manufacture of textile machinery. Of the remaining earnings, a portion was attributable to work performed in the Worcester plant and not related to the textile industry. Output of new looms was disappointing, the demand falling off as the year progressed with the result that fewer looms were produced than in the preceding year. Reduced volume at the Worcester plant in the second half of the year was importantly responsible for lower earnings in the second six months of the year than in the first six months.

## SALES AND EARNINGS

Our net earnings for the year, after provision of $1,553,470 for Federal Income and State taxes, were $1,282,155, equivalent to $2.85 a share on outstanding capital stock, excluding shares in the treasury. For the year previous net earnings were $927,131 or $2.06 a share. During the first six months of the year $1.66 a share was earned. During the second six months, earnings fell to $1.19 a share.

The improvement in volume and profits that came about through product diversification was in contrast to the lack of improvement in volume and profits of the Corporation's basic textile machinery business.

## TEXTILE MACHINERY

The 1956 dollar volume of sales of weaving machinery and parts approximated the 1955 volume and thus was a lesser portion of total consolidated volume, falling to 63% in 1956 from 74% the year previous. A reduction in new loom sales was offset by increased deliveries of repair parts and change-over business. Continued vigor in the paper and related industries was responsible for the shipment of relatively expensive special purpose looms in somewhat larger number than customary. However, orders throughout 1956 from those other sections of the textile industry which are users of our equipment were sporadic and far below normal. This was due to a continuing depressed state of affairs in the segments of the industry that we serve. There continued from 1955 a prolongation of mill liquidations with consequent continuing additions to the used machinery markets of relatively modern looms of the types we manufacture in quantity.

Our product was shipped to 42 foreign countries during the year despite the hindrances and competitive obstacles encountered in this type of commerce. A continuation of inflationary pressures in wages and commodity prices within the United States will not help us to improve our export business—nor, for that matter, business with domestic fabric weavers, an industry that during the past year experienced both higher manufacturing costs and intense price competition, with the additional burden of unrestricted imports of foreign-made cloth.

## DYESTUFFS AND CHEMICALS

The operations of the Corporation in this area through the Althouse Chemical Company Division were again satisfactory, particularly in the light of marked changes in fabric structure, finish, and dyeing components that took place throughout the year, which created new problems for dyeing and finishing of these fabrics and which were also responsible in part for diminished production. New items were put into production, new techniques were developed for our customers, and new equipment was added, as was additional sales personnel. In a year generally regarded as less than satisfactory for manufacturers of dyestuffs and textile chemical specialties, this Division of your Corporation did well.

## PACKAGING MACHINERY

During the first full year that your Corporation was engaged in the packaging machinery business, through the acquisition of the Wrap-King companies during the latter part of 1955, important progress was made in all respects. An increase in sales volume of 75%, refinements in operations, and increases in the size and strength of the organization from top to bottom, coupled with moderately profitable results, gave realistic support to the belief in the ability of your Corporation to assume an important role in the packaging industry of real benefit to Stockholders.

## REINFORCED PLASTICS

During 1956 your Corporation's operations in this field while continuing to be relatively small nevertheless reflected, through the Carl N. Beetle Plastics Corporation, purchased in the middle of 1955, progress in both volume and profits. Due to the pressure of production requirements and the limitations imposed by the plant, development work was limited to a degree not anticipated at the beginning of the year. However, in addition to receiving encouraging approval during the year of products previously developed and which had been under long-term test, there were also manufactured and tested several new items which will importantly supplement the effect of other products in grasping the increasingly expanding potential that seems to exist in this field. Improved sales and the need for increased manufacturing space point to expanded facilities. It is to be hoped this may also prove to be the need of the Reinforced Laminates Division established in Worcester and which, while it has not yet justified its existence, now gives possible promise of doing so relatively soon.

## FINANCIAL CONDITION

The financial condition of your Corporation continues to be excellent. Consolidated working capital at the year end was $11,177,007, an improvement of $820,757 on the $10,356,250 reported a year previous. On a per share basis, working capital was thus equal to $24.87 at December 31, 1956, and $22.81 at the end of 1955.

During 1956 additions of $447,358 were made to property, plant, and equipment and at January 1, 1957, appropriations for further purchases of machine tools of substantial amount, chiefly for the Worcester plant, had been approved.

As of January 1, 1956, there was a charge of $461,000 made against earnings retained for use in

the business to provide formal recognition on the balance sheet for the Corporation's liability for pensions payable to employees already retired at that date. Corresponding liabilities in previous years have been referred to in footnotes to financial statements.

After providing for these pensions and for dividends of $563,476 paid during the year, Stockholders' equity totaled $19,188,941 at the close of 1956 compared with $19,022,643 at December 31, 1955, or $42.72 and $41.89 respectively per share. These amounts are stated after the deduction of the cost of common shares held in the treasury.

## STOCK OPTION PLAN

Our Stockholders, at the Annual Meeting held on March 13, 1956, approved the institution of a Stock Option Incentive Plan, a copy of which was furnished each Stockholder prior to the meeting.

## INCREASE IN CAPITALIZATION

At the Annual Meeting held in 1956, the Stockholders approved a proposal to increase the authorized capital stock of the Corporation from 471,768 common shares then authorized and issued to 700,000 shares. This increase of 228,232 common shares of authorized capital provides, to the extent of 25,000 shares, a source from which the needs of the Stock Option Plan may be supplied, but more importantly it made available to your Board of Directors a reasonable supply of authorized but unissued shares for use in other legitimate corporate objectives, such as further acquisitions in pursuance of the Corporation's program of diversification.

## DIVERSIFICATION ACTIVITIES

There were no acquisitions of subsidiaries or similar purchases during 1956 in connection with the Corporation's diversification program. Instead there was during that period, as was indicated in the 1955 Annual Report, more of an assimilation and consolidation of those concerns which had become part of the Crompton & Knowles consolidated enterprise in the eighteen months prior to 1956.

Investigations into a number of possibilities to broaden the Corporation's operating base were made during the year, but at a pace considerably below that of the two years preceding. It is planned that beginning with the year 1957 we shall be considerably more active in this respect, particularly in the endeavor to employ more fully the present plant capacity at Worcester, Massachusetts.

## CHANGE IN CORPORATE NAME

We fully expect that the manufacture of weaving machinery will continue to comprise a major segment of the Corporation's business, but in the light of the diversification program undertaken almost three years ago, the words "Loom Works" in the corporate name appeared to carry too narrow a connotation. Upon appropriate action by the Stockholders at the Annual Meeting in 1956, the Company's name was changed to Crompton & Knowles Corporation.

## RESEARCH AND DEVELOPMENT

Research, development, and experimental work continued to rank importantly in the year's activities. Approximately two per cent of consolidated sales income was spent on such work by the Corporation and its subsidiaries during 1956, all of which has been charged against the year's profits.

## EXECUTIVE CHANGES

On December 20, 1956, Mr. Harold R. Wing, Vice-president for Sales, and Mr. Albert W. Muir, Jr., Assistant Treasurer, officers with many years of service with the Company, retired in accordance with the provisions of the Company's Retirement Plan. Effective the same date, Mr. Joseph F. Molloy, Acting General Sales Manager, and Mr. James Barringer, Comptroller, were elected to fill the vacancies caused by these retirements.

## LOOKING AHEAD

At the date of this report, we cannot predict higher textile machinery sales and earnings for 1957 inasmuch as demand for new looms and Jacquards continues at inordinately low levels with orders on the books smaller than a year ago. We can expect repair part and change-over business to continue through 1957 at good volume and to be an important factor in sales income as it has been in the past. It is planned that the manufacture and building, on a contract basis, of machinery for other than the textile industry will increase somewhat during the current year, and a satisfactory backlog of such orders is already at hand. As was said in the Annual Report for 1955, truly satisfactory consolidated earnings will not be forthcoming until the demand for our textile machinery is considerably strengthened. Despite the experience of the recent past, we continue to be firm in the belief that this strengthened demand will be forthcoming once the long process of reduction of overcapacity in the textile industry to bring about a balance with demand has been completed. At this point, improvement in the profit margins available to mills and the pressure of a continuing high percentage of obsolete equipment still in operation will work to stimulate a normal demand for the textile machinery produced by your Corporation, which continues to hold its historic position of high acceptance.

We look forward to continued growth in the volume and profits of our subsidiaries. In the field of dyestuffs and chemicals, we expect 1957 to be a good year, aided by diversification into the fields of allied products pertinent to the dyeing and finishing industry. Having substantiated our original belief of the ability of your Corporation to assume an increasingly important role in the packaging industry, we are prepared to take advantage in 1957 of the growth and profit opportunities it presents. We anticipate further important profitable progress in reinforced plastics.

Our contract with the CIO Steelworkers' Union at the Worcester plant was renewed as of July 1, 1956, for one year. We will thus be required to negotiate a new contract in the middle of this year.

Once again we acknowledge with appreciation the efforts and loyalty of all our employees.

Frederic W. Lewis, Jr.

February 15, 1957 *President*

PEAT, MARWICK, MITCHELL & CO.
ACCOUNTANTS AND AUDITORS

ACCOUNTANTS' REPORT

The Stockholders
Crompton & Knowles Corporation:

We have examined the consolidated balance sheet of Crompton & Knowles Corporation and subsidiaries as of December 31, 1956 and the related consolidated statement of earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statement of earnings present fairly the financial position of Crompton & Knowles Corporation and subsidiaries at December 31, 1956 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We have examined and reported previously on the accounts of Crompton & Knowles Corporation and subsidiaries for each of the nine years ended December 31, 1955, accepting reports of other independent public accountants on Althouse Chemical Company, Inc. for the year ended December 31, 1954. In our opinion, the summary of consolidated financial data for the ten years ended December 31, 1956 presents fairly the information stated therein.

Peat, Marwick, Mitchell & Co.

Worcester, Massachusetts
January 31, 1957

## Crompton & Knowles Corporation and Subsidiaries

# CONSOLIDATED STATEMENT OF EARNINGS

### Year Ended December 31, 1956 with Comparative Figures for 1955

### CURRENT EARNINGS

| | *1956* | *1955* |
|---|---|---|
| Gross operating profit, exclusive of depreciation | $6,540,709 | $5,306,574 |
| Selling, general and administrative expenses | 3,058,794 | 2,761,678 |
| Depreciation | 626,898 | 531,788 |
| Other charges, net | 19,392 | 41,140 |
| | 3,705,084 | 3,334,606 |
| Earnings before income and state taxes | 2,835,625 | 1,971,968 |
| Income and state taxes: | | |
| Federal and Canadian taxes on income | 1,314,465 | 893,044 |
| State taxes | 239,005 | 151,793 |
| | 1,553,470 | 1,044,837 |
| Net earnings for the year | $1,282,155 | $927,131 |

*See accompanying notes to financial statements.*

### EARNINGS RETAINED FOR USE IN THE BUSINESS

| | *1956* | *1955* |
|---|---|---|
| Appropriated Earnings: | | |
| Balance at beginning of year: | | |
| Possible price decline in inventories | $817,500 | $817,500 |
| Replacement of plant and equipment at higher than original costs | 1,260,000 | 1,260,000 |
| Employees' retirement income plan | 750,000 | 750,000 |
| | 2,827,500 | 2,827,500 |
| Restoration to unappropriated earnings | 2,827,500 | — |
| Balance at end of year | — | 2,827,500 |
| Unappropriated Earnings: | | |
| Balance at beginning of year | 10,598,727 | 10,122,717 |
| Provision for pensions (note 3) | (461,000) | — |
| Returned from appropriated earnings | 2,827,500 | — |
| Net earnings for the year | 1,282,155 | 927,131 |
| | 14,247,382 | 11,049,848 |
| Deduct dividends paid on common capital stock, $1.25 per share in 1956 and $1.00 per share in 1955 | 563,476 | 451,121 |
| | 13,683,906 | 10,598,727 |
| Balance at end of year | $13,683,906 | $13,426,227 |

# CROMPTON & KNOWLES C

## CONSOLIDATED

### DECEMBI

WITH COMPARATI

## ASSETS

| | December 31, 1956 | December 31, 1955 |
|---|---|---|
| Current Assets: | | |
| Cash | $1,997,874 | $1,251,829 |
| Marketable securities, at cost or face value plus accrued interest (quoted market value $1,339,960 at Dec. 31, 1956 and $1,418,446 at Dec. 31, 1955) | 1,443,457 | 1,457,244 |
| Notes and accounts receivable, less estimated uncollectible accounts | 3,705,601 | 4,192,081 |
| Inventories, at lower of first-in, first-out cost or market | 7,075,205 | 6,302,737 |
| Prepaid insurance premiums and deposits | 203,822 | 265,387 |
| Total Current Assets | 14,425,959 | 13,469,278 |
| Advance payments from customers, contra | 47,995 | 84,752 |
| Notes and accounts receivable, non-current | 158,769 | 174,136 |
| Investment in stocks of other corporations at cost or less (quoted market value $133,887 at Dec. 31, 1956 and $141,520 at Dec. 31, 1955) | 18,251 | 18,501 |
| Property, plant and equipment, at appraised values as of July 1932 plus subsequent acquisitions at cost, less accumulated depreciation of $7,002,158 at Dec. 31, 1956 and $6,890,238 at Dec. 31, 1955 (note 2) | 8,035,061 | 7,783,827 |
| Formulae, trade-marks, trade names, patents and patent rights (note 2) | 1 | 150,625 |
| Deferred tooling costs, less amortization | — | 170,181 |
| Excess of cost of investments in subsidiaries over their net book values (note 2) | 1,542,352 | 1,869,123 |
| | $24,228,388 | $23,720,423 |

### NOTES TO FINAN

(1) The consolidated financial statements include the accounts of the Company and all subsidiaries. The accounts of the Canadian subsidiary are stated at their appropriate United States dollar equivalents on a basis consistent with the prior year. All inter-company transactions have been eliminated.

(2) In connection with the liquidation on January 1, 1956 of Althouse Chemical Company, Inc., a subsidiary, and as permitted under the Internal Revenue Code, the cost assigned to certain assets was recorded on the books of the Company at increased (decreased) amounts over their carrying values on the books of the subsidiary as follows:

| | |
|---|---|
| Property, plant, and equipment—based on Day & Zimmerman, Inc. appraisal | $498,883 |
| Formulae, trade-marks, and trade names | (149,500) |
| Marketable securities | (19,156) |
| Net—deducted from excess of cost of investments in subsidiaries over their net book values | $330,227 |

Under the agreement relating to the purchase of Wrap-King Corporation and affiliated companies the parent company is obligated to pay to the former stockholders of the Wrap-King group amounts equal to 20% of its net earnings until such addi-

# ORPORATION AND SUBSIDIARIES

# BALANCE SHEET

**31, 1956**

FIGURES FOR 1955

## LIABILITIES

| | December 31, 1956 | December 31, 1955 |
|---|---|---|
| Current Liabilities: | | |
| Note payable, current installment | $100,000 | $100,000 |
| Notes payable to banks | 65,414 | 473,537 |
| Accounts payable | 876,557 | 782,304 |
| Accrued expenses | 752,666 | 647,731 |
| Federal, Canadian and state taxes on income | 1,454,315 | 1,109,456 |
| Total Current Liabilities | 3,248,952 | 3,113,028 |
| Advance payments from customers, contra | 47,995 | 84,752 |
| Pensions (less $135,500 included in accrued expenses) (note 3) | 342,500 | — |
| Twenty-five year 3% note payable, due Nov. 30, 1974, annual installments of $100,000 required on account of principal, less current installment | 1,400,000 | 1,500,000 |
| Stockholders' Equity: | | |
| Common capital stock, no par value | | |
| Authorized 700,000 shares at Dec. 31, 1956 and 471,768 shares at Dec. 31, 1955 (note 4) | | |
| Issued 471,768 shares | 5,897,100 | 5,897,100 |
| Earnings retained for use in the business: | | |
| Appropriated earnings | — | 2,827,500 |
| Unappropriated earnings | 13,683,906 | 10,598,727 |
| Total earnings retained for use in the business | 13,683,906 | 13,426,227 |
| | 19,581,006 | 19,323,327 |
| Less 22,547 shares at Dec. 31, 1956 and 17,697 shares at Dec. 31, 1955 of common capital stock held in treasury, at cost (note 4) | 392,065 | 300,684 |
| Total Stockholders' Equity | 19,188,941 | 19,022,643 |
| | $24,228,388 | $23,720,423 |

AL STATEMENTS

tional payments shall have aggregated $400,000. The first additional payment required, based on net earnings for 1956, has been added to excess of cost of investments in subsidiaries over their net book values.

(3) There are presently in effect, with respect to employees of the Company and a domestic subsidiary, noncontributory retirement plans. At December 31, 1956 the liability for past service costs under such plans is estimated at $2,557,000 of which $956,000 ($478,000 net after estimated Federal income taxes) is included as a liability in the accompanying consolidated balance sheet. For such liability, $17,000 was charged against current earnings and $461,000 was charged against earnings retained for use in the business since this latter amount was the unfunded actuarial liability as of December 31, 1955 (less estimated Federal income taxes) to then retired employees. Total pension costs charged to earnings before income and state taxes during the current year were $704,695.

(4) Under the Company's restricted stock option plan, limited to 25,000 shares, options were granted in 1956 to two officers to purchase 12,500 shares of common capital stock at 95% of market value at date of granting. Such options are not exercisable until five years after date of granting.

# CROMPTON & KNOWLES CORPORATION AND SUBSIDIARIES

## SUMMARY OF

TEN

| | 1956 | 1955 | 1954 | 1953 |
|---|---|---|---|---|
| Net sales based on index of 1946 = 100 | 181 | 148 | 109 | 107 |
| Net earnings (after Federal and State taxes) | $ 1,282,155 | 927,131 | 230,659 (1) | 89,234 |
| Net earnings (after Federal and State taxes) per share common capital stock | $ 2.85 | 2.06 | .49 | .19 |
| Dividends declared on common capital stock | $ 563,476 | 451,121 | 117,942 | 235,884 |
| Dividends declared per share common capital stock | $ 1.25 | 1.00 | .25 | .50 |
| Additions to property, plant and equipment | $ 447,358 (2) | 335,057 (2) | 204,093 (2) | 69,315 |
| Depreciation | $ 626,898 | 531,788 | 455,297 | 446,852 |
| Working capital | $ 11,177,007 | 10,356,250 | 10,386,189 | 12,688,560 |
| Working capital per share common capital stock | $ 24.87 | 22.81 | 22.02 | 26.89 |
| Ratio of working capital | 4.4 | 4.3 | 6.0 | 11.1 |
| Common stockholders' equity | $ 19,188,941 | 19,022,643 | 18,847,317 | 18,734,601 |
| Stockholders' equity per share common capital stock | $ 42.72 | 41.89 | 39.95 | 39.71 |

(1) After reflecting a claim estimated at $500,000 for refund of Federal taxes on income of the Company arising from a tax loss carry-back of $980,000. This tax loss includes approximately $450,000 for expenses provided for in the accounts in prior years, but not deductible for tax purposes until 1954.

# CONSOLIDATED FINANCIAL DATA

YEARS ENDED DECEMBER 31, 1956

| *1952* | *1951* | *1950* | *1949* | *1948* | *1947* |
|---|---|---|---|---|---|
| 151 | 247 | 258 | 239 | 211 | 158 |
| 1,059,358 | 3,092,064 | 3,892,178 | 4,698,940 | 3,196,529 | 2,163,168 |
| 2.25 | 6.55 | 8.25 | 9.65 | 6.47 | 4.28 |
| 825,594 | 1,415,304 | 1,887,072 | 1,710,159 | 1,061,478 | 707,652 |
| 1.75 | 3.00 | 4.00 | 3.62 | 2.25 | 1.50 |
| 259,656 | 600,800 | 449,726 | 539,704 | 953,527 | 768,023 |
| 436,823 | 407,961 | 385,138 | 343,437 | 283,046 | 238,907 |
| 12,433,169 | 12,228,825 | 11,100,930 | 9,678,947 | 7,286,846 | 6,261,581 |
| 26.35 | 25.92 | 23.53 | 20.52 | 15.45 | 13.27 |
| 5.9 | 3.1 | 2.6 | 3.0 | 2.7 | 3.1 |
| 18,636,066 | 18,187,513 | 16,553,806 | 14,618,900 | 11,781,694 | 9,893,825 |
| 39.50 | 38.55 | 35.09 | 30.99 | 24.97 | 20.97 |

(2) Excluding property, plant and equipment of $498,883 in 1956, $195,784 in 1955 and $691,575 in 1954 acquired on acquisition of subsidiaries.

(3) Amounts per share for 1955 and 1956 are stated after appropriate adjustment for the number of shares held in Treasury.

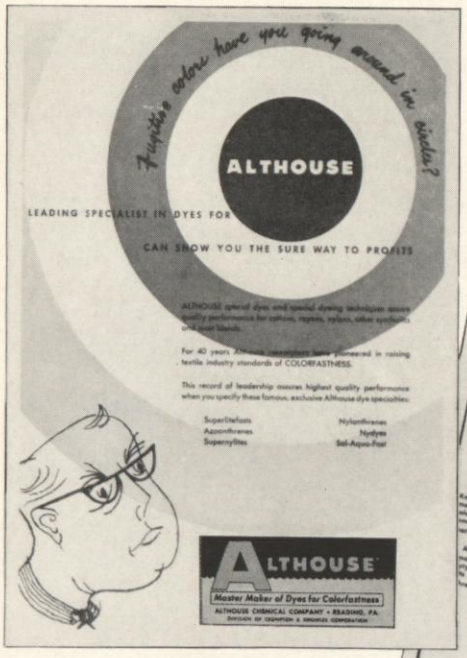
# 1956

## C&K LOOMS

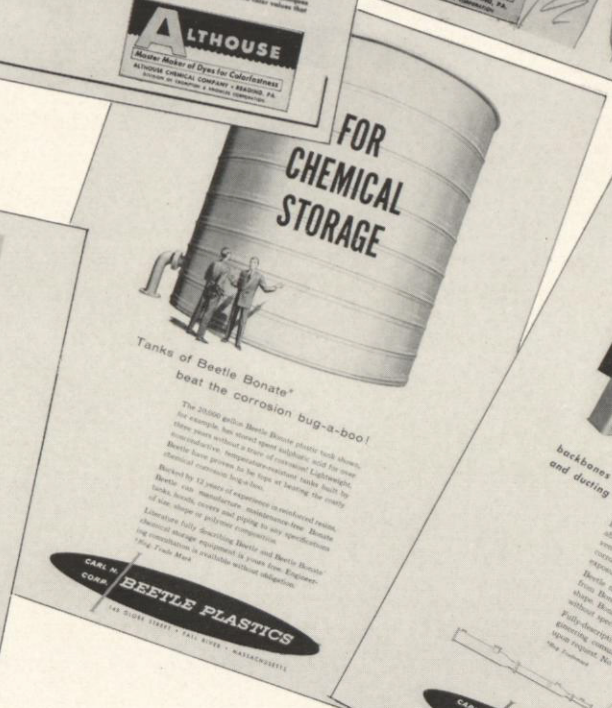
## WRAP-KING MACHINERY

# PRODUCT PROMOTION

## ALTHOUSE DYES



## BEETLE PLASTICS



# CROMPTON & KNOWLES *Corporation*

WORCESTER, MASSACHUSETTS, U.S.A.

•

**Althouse Chemical Company Division, Reading, Pa.**

•

**Crompton & Knowles Jacquard & Supply Co., Pawtucket, R.I.**

•

**Crompton & Knowles of Canada Limited, Montreal, P. Q.**

•

**Wrap-King Corporation, Holyoke, Mass.**

•

**Carl N. Beetle Plastics Corporation, Fall River, Mass.**

TEXTILE MACHINERY SALES OFFICES

Worcester, Mass. Pawtucket, R. I. Allentown, Pa. Philadelphia, Pa. Charlotte, N. C.

THE DAVIS PRESS WORCESTER MASS. U.S.A.